

The Financial Times of Indiana

Tax restructuring news from the Office of Governor Frank O'Bannon

Thursday, January 10, 2002

www.IN.gov/gov

The News in brief...

Why the 21st Century Tax Plan is Smart for Local Government

If restructuring were delayed to the 2003 legislative session for implementation in 2003, local governments' budgets would be thrown into disarray. This result is dictated by the timetable for budgeting of counties, townships, cities, towns, schools, and other local units. All of these local units must know their total assessed valuation in the late summer or early fall of the year *before* their January 1 budgets go into effect. That means that this year, for example, local units knew their net assessed values last August so that they could plan their budgets. Local units adopt these budgets in September (after advertising tax levies and holding public hearings).

While there is some flexibility in this timeline, it would be impossible to pass restructuring in 2003 and implement it in the same year. Changing the rules of the game after the start of a new fiscal year would make budgeting and fiscal planning literally impossible for local units of government, and it would preclude providing any sort of timely public notice of or public comment on proposed tax rates.

Timing is everything

This timeline shows that in 2003, it will be too late to restructure Indiana's tax system. The timeline is based on the standard budgetary/assessment process used by local units of government in Indiana.

August 2002 Net Assessed Valuation (NAV) is provided to local units of government by County Assessors.	Sept. 2002 Local budgets are advertised, discussed, and adopted.	October 2002 Indiana Dept. of Local Government Finance holds hearings to review and analyze local budgets for approval before February 15.	Jan. 1, 2003 New fiscal year begins for local government, using budgetary information collected in 2002.
Early January 2003 113 th Session of the General Assembly begins.	February 15 Last day for Dept. of Local Gov't. Finance to approve budgets.	March – April 2003 Tax bills are sent to property owners. Indiana General Assembly adjourns session for the year by the end of April.	May 10, 2003 First installments of property taxes are due from property owners in Indiana.

Restructuring: The Risks of Waiting

Homeowners. If restructuring does not take effect this year, taxpayers would suffer the serious consequences of reassessment. The average homeowner's tax bill will increase by 13% under reassessment, but this average masks a wide range of effects that will see some homeowners' bills double or more. Taxpayers will begin to feel this effect in late 2002 or early 2003 when their mortgage companies adjust their escrow accounts to anticipate higher tax bills in 2003.

Businesses. Homeowners are not the only ones who will bear these consequences. Since the Indiana Tax Court ordered the state to change to the way Indiana assesses property, some businesses have been waiting to see what the result will be – waiting on making decisions that affect their future based on the state's tax structure. We can alleviate some of that uncertainty with the 21st Century Tax Plan. Restructuring will only have a positive impact on our economic recovery.

Moreover, as a part of the new Indiana property tax rule, Indiana companies must now pay taxes on 100% of their inventory. Gone is the 35% exemption that businesses were able to take advantage of under the old rule. This makes the passage of the 21st Century Tax Plan that much more important. Without it, businesses will not only be unable to reap the benefits of the increased research and development tax credit, a new investment tax credit and the elimination of the corporate gross income tax, they will also still be paying taxes on their inventory -- and paying considerably more beginning this year.

An Update on the Local Reassessment Process

Every two months, the Indiana Department of Local Government Finance (formerly the role filled by the State Board of Tax Commissioners) conducts a survey of local units of government, specifically county Assessors, to receive an update on the process of assessment, which currently must be completed by fall 2002 in order for 2003 local government budgets to be projected accurately. Two major components of the local reassessment process include data collection and software implementation. As of November 2001, the Department reports that the initial data collection portion of the process is over 50% complete in 41% of Indiana counties, and software was in place in 36% of Indiana counties.

Local government links:

<http://www.in.gov/ai/gov/local.html>

or, go to:

<http://www.in.gov/dlgf/>

The Court Ordered It!

In 1998, the Indiana Tax Court declared Indiana's method of assessing property unconstitutional, mandating that the state create new rules of property assessment based on market value to be implemented for tax bills in 2003. The Indiana Tax Court is part of the state's judiciary branch of government, and has exclusive jurisdiction over almost all cases presented in dispute of Indiana tax law. Learn more about the Indiana Tax Court at: <http://www.in.gov/judiciary/tax/>

Be on the watch for:

Governor O'Bannon's 6th State of the State Address, January 15, 7:30 p.m.